

# **REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE GEORGE MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the George Municipality set out on pages 6 to 121, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the George Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Material underspending of the budget**

8. As disclosed in the statement of comparison of budgeted and actual amounts, the municipality has materially underspent its budget by R31,8 million. The difference is mostly due to underspending on housing projects and proclaimed roads.

## **Material Impairments**

9. As disclosed in note 30 to the financial statements, material losses to the amount of R69,6 million were reported by the municipality as a result of the impairment of irrecoverable trade receivables.

## **Additional matter**

10. I draw attention to the matter below. My opinion is not modified in respect of this matter:

## **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

## **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 21 to 42 of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

15. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned strategic objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information*.
16. The reliability of the information in respect of the selected strategic objectives (namely to improve the standards of the district municipality and the local municipalities on the integrated development plan, to deliver services and implement projects in line with the mandate of the district municipality, to create a conducive environment for district economic development, to support and monitor local municipalities in all areas of need, to ensure prudent financial management, to improve staff skills and development and to improve institutional transformation and development priorities) was assessed to determine whether it adequately reflected the facts (i.e. whether it was valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matters**

18. Although no material findings concerning the usefulness and reliability of the performance information were identified, I draw attention to the matters below.

#### **Achievement of planned targets**

19. Refer to the annual performance report on page 20 for information on the achievement of the planned targets for the year.

#### **Material adjustments to the annual performance report**

20. Material audit misstatements were identified in the annual performance report during the audit, all of which were corrected by management.

### **Compliance with laws and regulations**

21. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA.

### **Internal control**

22. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. I did not identify any deficiencies in internal control that I considered sufficiently significant for inclusion in this report.

*Auditor-General*

Western Cape

28 November 2014



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SOUTH AFRICA

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